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Vermont's Diverse Economy, Sound Fiscal Health Support 'AA+' GO Debt Rating

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Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating, and stable outlook, to Vermont's \$118.595 million series 2004A GO refunding bonds.

The rating reflects the state's:

- Strong financial management;
- Conservative debt and budgeting practices, which have helped minimize the national recession's economic and financial effect on the state compared to other states;
- Diverse economy, which is being affected by the national recession, although with unemployment still below the nation's average; and
- Favorable debt position with a low debt burden, rapid amortization, and a trend of more debt being retired than being issued.

The state's full faith and credit pledge secures the bonds.

Vermont's economic diversification has played a central role in its relatively stable economic performance, leading to a comparably mild recession with less unemployment and revenue dislocation than most states. The state's annual unemployment has been below national levels for more than 20 years. The November 2003 unemployment rate of 4.0% was well below the nation's 5.9% rate. International Business Machines Corp. (IBM), the state's leading employer, has been affected by the national recession. IBM, which at its peak employs upward of 7,800, has laid off 1,800

employees over the past two years, returning the number of employees back to levels last seen in the early 1990s. In December, IBM announced it had secured a long-term contract with the U.S. Department of Defense, which management expects will help stabilize employment levels.

Following IBM, the state's leading employers are stable and quite diverse. The only other private company employing more than 3,000 is Fletcher Allen Health Care (BBB/Negative/--), which is based in Burlington, Vt. Fletcher Allen Health Care is the parent company of Fletcher Allen Hospital, the state's leading hospital and a 500-bed teaching hospital associated with the University of Vermont (A+/Stable/--). A number of firms exceed 1,000 employees, including Chittenden Trust, General Electric Co. (GE), Middlebury College, and a number of grocery stores.

Vermont's financial position is strong. Unlike other New England states, Vermont never fully depleted its reserves; in addition, the state already began replenishing its reserve levels in fiscal 2003. Unaudited fiscal 2003 results indicate a \$10.8 million general fund surplus after transfers. The surplus was added to the budget stabilization fund, bringing it to \$23.6 million or more than 50% of the required amount. The state's transportation fund closed fiscal 2003 with preliminary results indicating an \$8.9 million surplus. The education fund improved operations over fiscal 2002 but still closed with a \$3 million deficit. At fiscal year-end 2003, reserves on hand were nearly \$50.00 million, including \$23.56 million in the general fund stabilization fund, \$17.24 million in the human services caseload reserve, and \$9.16 million in the transportation fund. Fiscal 2004 revenues are coming in above budgetary expectations.

Vermont's GO debt burden is a low \$736 per capita and 2.5% of personal income on \$448.2 million of GO debt outstanding. Amortization is rapid with about 80% retired over 10 years.

Outlook

The stable outlook reflects the expectation that the state's prudent financial and debt management practices will lead to continued sound financial operations.

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